

Message Text

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R 281000Z JUN 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 2975

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMCONSUL HONG KONG

AMEMBASSY KUALA LUMUR

AMEMBASSY MANILA

USLO PEKING

AMEMBASSY PHNOM PENH

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AMEMBASSY TAIPEI

AMEMBASSY VIENTIANE

CINCPAC HONOLULU HI

COMUSJAPAN

C O N F I D E N T I A L SECTION 1 OF 3 TOKYO 8574

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: EGEN, PINT, PFOR, MARR, JA

SUBJECT: QUARTERLY ASSESSMENT - JUNE 1974

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REF: TOKYO 4191

LOOKING BACK OVER THIS PAST QUARTER, I HAVE THE FEELING THAT THE JAPAN SCENE HAS BEEN IN A STATE OF MOMENTARY CALM. THE NEAR-PANIC THAT WAS IN THE AIR DURING THE WINTER OVER OIL-INDUCED INFLATION AND ECONOMIC CRISIS HAS FLATTENED OUT. DESPITE UNCERTAINTIES ABOUT HOW TO DEAL WITH THE COUNTRY'S ECONOMIC PROBLEMS, MOST PEOPLE NONETHELESS SEEM TO ASSUME THAT JAPAN WILL SOMEHOW COME OUT ALL RIGHT.

THE CALM HAS IN PART, AT LEAST, BEEN INDUCED BY THE ESTABLISHMENT'S CONSCIOUS EFFORTS TO RESTRAIN TALK OF INEVITABLE PROBLEMS TO COME IN ORDER TO CREATE AN ATMOSPHERE THAT WILL HELP THE CONSERVATIVES WIN IN THE JULY UPPER HOUSE ELECTIONS. FOREBODINGS OF TROUBLES TO COME HAVE ALSO BEEN DAMPENED BY THE HIGH WAGE SETTLEMENTS IN THE SPRING, THE RECORD-SETTIN SUMMER BONUSES NOW BEING HANDED OUT, AND THE POSTPONEMENT OF POLICY AND LEGISLATIVE DECISIONS. THE CONSERVATIVES' ALL-OUT CAMPAIGN EFFORT HAS EVEN REMOVED MOST OF THE POPULAR EXCITEMENT FROM THE ELECTION CAMPAIGN SINCE A CONSERVATIVE "VICTORY" SEEMS FOREORDAINED.

I DO NOT HAVE THE FEELING THAT THE PROBLEMS ARE BEING IGNORED, BUT I SEE VERY FEW SOLUTIONS EMERGING IN TALK WE HEAR. TWO THEMES MAY BE INFERRED FROM BOTH THE TALK AND THE ACTIONS OF JAPANESE, HOWEVER: (1) GROWING RECOGNITION OF THE MULTILATERAL COMPLEXITY OF MANY CURRENT ISSUES, AND (2) A FEELING THAT JAPAN'S BEST COURSE STILL IS TO MAINTAIN CLOSE TIES OF CONSULTATION WITH THE U.S. WE, ON OUR SIDE SHOULD BE PREPARED TO CONTINUE THE HEAVY INVESTMENT OF TIME AND EFFORT IT TAKES TO KEEP THE BROAD POLICIES OF BOTH COUNTRIES MOVING ALONG PARALLEL LINES.

I. DOMESTIC POLITICS

THE MOST SIGNIFICANT DEVELOPMENT IN THE JAPANESE DOMESTIC POLITICAL SCENE DURING THE PAST THREE MONTHS HAS BEEN THE RECOVERY OF LDP STRENGTH AND SELF-CONFIDENCE AFTER A PROLONGED SIEGE OF INTERNAL CONFUSION AND PESSIMISM
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IN THE FACE OF MOUNTING INFLATION AND OTHER ECONOMIC PROBLEMS. THIS RECOVERY HAS BEEN MARKED BY THE TANAKA GOVERNMENT'S SUCCESS IN WEATHERING THE INTERNAL CHALLENGE TO ITS AUTHORITY MOUNTED BY PRO-TAIWAN ELEMENTS IN THE LDP; THE REMARKABLE BRIGHTENING OF LDP PROSPECTS IN THE UPPER HOUSE ELECTIONS, WHICH ARE NOW SEEN LIKELY TO LEAVE THE LDP'S MAJORITY INTACT AND POSSIBLY EVEN SLIGHTLY INCREASED; AND THE FAILURE OF THE COMBINED OPPOSITION PARTIES TO PUT

TOGETHER A UNIFIED ANTI-LDP FRONT EITHER IN THE DIET OR THE CURRENT ELECTION CAMPAIGN.

ALTHOUGH PRIME MINISTER TANAKA'S PERSONAL POPULARITY AS REFLECTED IN VARIOUS POLLS REMAINS ALMOST AT ROCK BOTTOM, HE APPEARS LIKELY TO EMERGE FROM THE TRIALS OF THE LAST QUARTER MORE IN CONTROL OF HIS PARTY THAN EVER. HIS ADMINISTRATION CAME THROUGH THE STORMY EXTENDED DIET SESSION WITH MOST OF ITS LEGISLATIVE PROGRAM APPROVED AND THE CONTROVERSIAL PRC-JAPAN CIVIL AVIATION AGREEMENT RATIFIED. FOLLOWING ITS DEFEAT ON THE CHINA CIVIL AIR ISSUE, THE RADICAL ACTIVIST SEIRANKAI SHOWED SIGNS OF LOSING STEAM AND MUCH OF ITS ORIGINAL COHESION. WITHIN THE OPPOSITION CAMP, THE KYOTO GUBERNATORIAL ELECTIONS IN EARLY APRIL INTENSIFIED THE DEEP RIGHT-LEFT WING SPLIT IN THE JSP AND SOCIALIST SUSPICION OF THE JCP AND HAMSTRUNG EFFORTS AT OPPOSITION COOPERATION AGAINST THE LDP IN THE UPPER HOUSE ELECTION.

AT THE SAME TIME, THE PUBLIC APPEARS NOT DISPOSED TO BLAME TANAKA ENTIRELY FOR THE COUNTRY'S ECONOMIC PROBLEMS. TANAKA'S EFFORTS TO APPEAL TO THE ANTI-MARXIST AND TRADITIONALIST SENTIMENTS OF THE "SILENT MAJORITY", AS IN HIS ATTACK AGAINST THE LEFTIST DOMINATION OF THE TEACHERS UNIONS, APPEAR TO HAVE HIT A RESPONSIVE CHORD.

IF, AS APPEARS LIKELY NOW, TANAKA COMES OUT OF THE ELECTION WITH A STRONGER PARTY BASE FOR LEADERSHIP, HE MAY FEEL ABLE TO MOVE MORE CONFIDENTLY TOWARD SOME OF HIS FAVORED DOMESTIC POLICIES, SUCH AS REFORM OF THE ELECTORAL LAW, REVISION OF THE DIET LAW TO CURB OPPOSITION OBSTRUCTIONISM, AND REFORM OF THE EDUCATION SYSTEM. HE IS ALMOST CERTAIN TO FIND THAT THE COMMUNISTS HAVE ONCE

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AGAIN GAINED IN ELECTORAL SUPPORT, HOWEVER, AND HIS PERSONAL POPULARITY RATING IS UNLIKELY TO CHANGE DRAMATICALLY FOR THE BETTER.

FROM OUR POINT OF VIEW THIS MEANS:

-- TANAKA WILL REMAIN IN OFFICE AT LEAST FOR THE NEXT YEAR OR SO.

-- THE CONSERVATIVES WILL REMAIN IN POWER FOR THE FORESEEABLE FUTURE, BUT DISCONTENT IN THE PARTY AND THE NATION WILL EXERT PRESSURE FOR CHANGE ON TRADITIONALIST LEADERS, ORGANIZATIONS AND POLICIES.

-- THE UPPER HOUSE ELECTION RESULTS WILL NOT CHANGE
THE CAUTIOUS STYLE AND CONSERVATIVE SUBSTANCE
OF TANAKA'S APPROACH TO WORLD PROBLEMS AND THE U.S.

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C O N F I D E N T I A L SECTION 2 OF 3 TOKYO 8574

II. FOREIGN RELATIONS

A. RELATIONS WITH COMMUNIST COUNTRIES -- JAPAN
MOVED STEADILY AHEAD WITH ITS STRATEGY TO COMPLETE THE
NORMALIZATION OF RELATIONS WITH THE PRC AS A MEANS OF
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PRESSURE AGAINST THE SOVIET UNION. CONCLUSION OF THE
CIVIL AVIATION AGREEMENT WITH PEKING WAS THE MOST
IMPORTANT DEVELOPMENT, PERMITTING THE GOJ TO MOVE AHEAD
PROMPTLY TOWARD NEGOTIATING OTHER AGREEMENTS WITH THE
PRC CALLED FOR IN THE SEPTEMBER 1972 COMMUNIQUE
(SHIPPING, FISHING, TRADE, ETC.). HOPES TO ACHIEVE
A PEACE TREATY BY THE END OF THIS YEAR MAY NOT BE REALIZED,
BUT THE DIRECTION OF JAPANESE POLICY IS CLEAR. THE GOJ
HAS CONTINUED TO KEEP US CLOSELY INFORMED.

BOTH JAPAN AND THE SOVIET UNION CONTINUED TO CIRCLE
AND PROBE ON SIBERIAN DEVELOPMENT. THE JAPANESE HAVE
FINALLY AGREED IN PRINCIPLE ON THREE SOVIET PROJECTS,
BUT THE POSSIBILITY RECEDED OF EARLY AGREEMENT ON
THE COSTLIER TYUMENI OIL AND NEW TRANS-SIBERIAN RAILROAD
PROPOSALS. THE GOJ WANTS A HIGH-LEVEL SOVIET VISIT THIS
YEAR, MAINLY TO MAINTAIN MOMENTUM IN THE LONG-TERM
EFFORT TO RECOVER THE NORTHERN TERRITORIES RATHER THAN
TO SETTLE THAT OR OTHER OUTSTANDING ISSUES BETWEEN THEM.

-- IN TERMS OF OUR INTERESTS, THESE TRENDS
DO NOT INDICATE ANY SIGNIFICANT CHANGE IN
JAPAN'S POLICY TOWARD THE BLOC OR IN ITS
DESIRE TO STAY CLOSE TO US ON THESE MATTERS.

B. POLICIES TOWARD THE LDC'S -- THERE HAVE BEEN SIGNS
DURING THE QUARTER THAT THE GOJ IS WRESTLING WITH THE
LDC PROBLEM, BUT THERE HAS BEEN LITTLE EVIDENCE OF FINAL
POLICY DIRECTIONS -- EXCEPT IN THE GENERAL SENSE THAT
JAPAN INTENDS TO DO WHATEVER IS POSSIBLE TO STRENGTHEN THE
RELIABILITY OF ITS SOURCES OF SUPPLY AND ITS MARKETS.

-- FOR US, JAPAN'S ULTIMATE PATTERN OF DEALING
WITH THE LDC'S COULD MEAN MORE COMPLICATED
CONSULTATIONS BETWEEN US IN THE UN CONTEXT
AND ELSEWHERE.

C. KOREA -- PRESIDENT PARK'S STRONG DOMESTIC MEASURES,
THE REVIVAL OF THE KIM T'AE-JUNG CASE, AND THE ARREST
AND TRIAL OF TWO JAPANESE NATIONALS ON CHARGES OF SUBVERSION
CREATED HEADACHES FOR THE GOJ IN HANDLING PUBLIC OPINION
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AND THE OPPOSITION PARTIES. THE GOJ WORKED HARD, AND SUCCESSFULLY, TO MAINTAIN A CORRECT POLITICAL POSTURE AND RETAIN ITS POLICY OF SUPPORT FOR THE ROK IN AID AND IN THE UN.

-- FOR OUR INTERESTS, THE GOJ'S DIFFICULTY IN HOLDING THE LINE AGAINST DOMESTIC PRESSURES MAY EVENTUALLY RESULT IN SOME SHADING OFF OF JAPANESE SUPPORT FOR OUR POSITION ON THE KOREAN ITEM IN THE UN.

D. MULTILATERAL -- GOJ POSITIONS AT THE CARACAS LOS CONFERENCE REMAIN CONGRUENT WITH OUR OWN EXCEPT ON FISHERIES AND STRAITS. WE HAVE CONTINUED TO HAVE EXCELLENT CONSULTATIVE RELATIONS THROUGHOUT THESE NEGOTIATIONS. PROSPECTS FOR DIET RATIFICATION OF THE NPT PROBABLY HAVE BEEN SET BACK BY RECENT NUCLEAR TESTS BY INDIA, FRANCE, THE PRC AND BRITAIN, BUT THE GOVERNMENT HAS NOT CHANGED ITS POSITION, WHICH IS STRONGLY IN FAVOR OF RATIFICATION "AS SOON AS POSSIBLE".

-- ON THE NPT, RECENT DEVELOPMENTS HAVE NOT ONLY DELAYED THE GOJ LEGISLATIVE TIMETABLE, BUT THEY ALSO APPEAR TO HAVE SET BACK THE SLOW PROCESS OF DEVELOPING A NATIONAL CONSENSUS ON THIS AND RELATED ISSUES.

III. ECONOMIC RELATIONS

DURING THE PAST SIX MONTHS, THE JAPANESE ECONOMY HAS UNDERGONE ITS MOST PRONOUNCED SLUMP IN 15 YEARS, WITH INFLATION REMAINING THE MOST INTRACTABLE PROBLEM. WHILE SERIOUS SIGNS OF CONCERN SURFACED IN THE JAPANESE BUSINESS COMMUNITY EARLY THIS YEAR FOLLOWING THE "OIL CRISIS," REACTION IN RECENT MONTHS HAS BEEN SURPRISINGLY CALM.

RATHER THAN CONFIDENCE, THOUGH, THE CALM REFLECTS:

(1) DIFFERENCES OF OPINION BETWEEN THE MINISTRY OF FINANCE AND MITI REGARDING THE PROPER POLICY PRESCRIPTION(S)
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FOR THE COMING MONTHS;

(2) THE NATURAL INSTINCT OF GOVERNMENT AND BUSINESS TO KEEP THE LID ON OVERT EXPRESSIONS OF CONCERN UNTIL AFTER THE JULY UPPER HOUSE ELECTIONS; AND

(3) THE INABILITY OF ANYONE TO COME UP WITH AN
ALTERNATIVE POLICY TO BOLSTER DEMAND WITHOUT FURTHER
EXACERBATING INFLATIONARY PRESSURES.

JAPAN INCREASINGLY ACCEPTS THE NEED TO CUT BACK
THE AVERAGE ANNUAL RATE OF GROWTH FROM THE 10-11 PERCENT
RANGE OF THE PAST DECADE TO SOMETHING IN THE RANGE OF 6-7
PERCENT. THIS IS LIKELY TO REQUIRE CONTINUED TIGHT
MONETARY AND FISCAL RESTRAINT FOR THE REMAINDER OF JFY
1974 AND PERHAPS LONGER. IN VIEW OF THE RECORD 5.0
PERCENT DECLINE IN REAL GNP REGISTERED IN JANUARY-MARCH

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C O N F I D E N T I A L SECTION 3 OF 3 TOKYO 8574

1974, FORECASTS OF REAL GNP GROWTH FOR JFY 1974 (APRIL 1974 -
MARCH 1975) ARE NOW RANGING IN THE AREA OF MINUS 1 TO PLUS 3.

IMPLICATIONS OF THIS SITUATION FOR US-JAPAN
RELATIONS INCLUDE:
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-- A CONTINUED EFFORT BY GOVERNMENT AND BUSINESS
TO KEEP IN CLOSE TOUCH WITH THEIR AMERICAN
COUNTERPARTS. THE JAPANESE RECOGNIZE THE
WORLD ECONOMY IS UNDERGOING A SEA-CHANGE
AND THEY FEEL NO MORE (AND PROBABLY LESS)
CONFIDENT THAN OTHERS OF THEIR ABILITY TO
READ THE SIGNS ACCURATELY.

-- A CONTINUED AND PROBABLY HEIGHTENED INTEREST
IN COLLABORATION WITH MULTILATERAL EFFORTS
TO TRY TO COPE WITH WORLD ECONOMIC ISSUES.

WITH RESPECT TO ENERGY, JAPAN'S POLICY WILL NO DOUBT
COME UNDER GREATER STRESS THAN BEFORE THE ENERGY CRISIS.
THE DEBATE OF RECENT MONTHS IN JAPAN WILL CONTINUE BETWEEN:

(1) THOSE WHO FEAR THAT TOO ACTIVE AND OVERT A
JAPANESE IDENTIFICATION WITH THE OIL CONSUMERS MAY
ANTAGONIZE THE OIL PRODUCERS WITH POTENTIALLY DISASTROUS
IMPACT ON JAPAN (AND MORE QUICKLY THAN ON OTHERS DUE TO
JAPAN'S MUCH GREATER DEPENDENCE ON IMPORTED OIL); AND

(2) THOSE WHO INTERPRET THIS VERY SAME JAPANESE
VULNERABILITY AS REQUIRING JAPAN TO COLLABORATE MORE
CLOSELY WITH THE US AND OTHER OIL IMPORTERS.

THE WEAKNESS ON BOTH SIDES IS THE DIFFICULTY OF
COMING UP WITH CONCRETE, IMMEDIATE ADVANTAGES -- THE
FORMER BECAUSE OF JAPAN'S INABILITY TO ENTER INTO
ADVANTAGEOUS BILATERAL DEALS, AND THE LATTER BECAUSE
REMEDIAL ACTIONS REQUIRE A LONG LEAD-TIME AND CANNOT IN
ANY CASE ELIMINATE JAPAN'S DEPENDENCE ON IMPORTED ENERGY.

-- THIS MEANS FOR US THAT IN THE COMING MONTHS
THE FEAR OF FORTHRIGHT IDENTITY WITH THE

CONSUMERS WILL UNDOUBTEDLY REMAIN STRONG
AND WILL CONTINUE TO CONDITION JAPAN'S
PARTICIPATION IN THE ACTIVITIES OF THE ECG.

THE OUTLOOK FOR THE BILATERAL US-JAPAN TRADE BALANCE
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IS CLOUDED BY A NUMBER OF UNCERTAINTIES:

(1) THE FUTURE OF COMMODITY PRICES, PARTICULARLY FOR
AGRICULTURAL PRODUCTS. (WHILE THE VOLUME OF OUR
EXPORTS MAY GROW SOMEWHAT, A SIGNIFICANT DROP IN
PRICES COULD SIGNIFICANTLY AFFECT OUR TRADE BALANCE
JUST AS THE SHARP RISE WAS RESPONSIBLE IN LARGE
MEASURE FOR THE IMPROVEMENT IN THE BALANCE IN 1973).

(2) JAPAN'S CONTINUED COMPETITIVENESS IN THE U.S.
MARKET IN ITS MAJOR EXPORT LINES (AUTOMOBILES SEEM
TO SHOW A DECLINE IN COMPETITIVENESS).

(3) THE QUESTION OF WHETHER AND IF SO THE EXTENT
TO WHICH JAPAN MOUNTS AN EXPORT DRIVE. JAPAN NEEDS
TO MAINTAIN HIGH EXPORT VOLUME TO HELP KEEP THE
B/P IMPACT OF OIL-INDUCED PRICE INCREASES OF
IMPORTS WITHIN MANAGEABLE PROPORTIONS,
WHILE AT THE SAME TIME AVOIDING EXCESSIVE INCREASES
OF EXPORTS IN ANY PARTICULAR PRODUCT LINE WHICH COULD
PROVOKE A SHARP U.S. REACTION.

TWO DEVELOPMENTS WILL BEAR WATCHING IN TERMS OF OUR
INTERESTS:

-- JAPAN'S OFT-CRITICIZED TOOL OF ADMINISTRATIVE
GUIDANCE MAY BE THE ONLY WAY JAPAN CAN TREAD
THE DELICATE PATH IT WISHES TO FOLLOW. THERE HAVE
BEEN NO SIGNS THAT THE GOJ INTENDS TO REINTRODUCE
ANY EXPORT INCENTIVE MEASURES AND, INDEED, JAPANESE
LEADERS CONTINUE TO SPEAK BOTH PUBLICLY AND PRIVATELY
AGAINST THIS COURSE OF ACTION.

-- JAPAN WILL MAINTAIN THE MORE LIBERAL ATTITUDE
TOWARD INVESTMENT (ADOPTED MAY 1973), WILL BE
INCREASINGLY VIGOROUS IN SEEKING FOREIGN
LOANS TO FINANCE IMPORTS, AND WILL RESTRAIN
NET CAPITAL OUTFLOW -- ALL THREE LINES OF
ACTION DESIGNED TO EASE BALANCE OF PAYMENTS
PROBLEMS.

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IV SECURITY RELATIONS

DURING THE PAST QUARTER, WE HAVE BEGUN TO FEEL THE PSYCHOLOGICAL -- AND ECONOMIC -- IMPACT OF INFLATION ON OUR SECURITY RELATIONS WITH JAPAN AND JAPAN'S DEFENSE POLICIES.

ON THE POSITIVE SIDE, INFLATION HAS VIRTUALLY BLOTTED OUT DEFENSE ISSUES FROM THE PUBLIC CONSCIOUSNESS. THE SECURITY TREATY IS BEING IGNORED IN THE PRESENT ELECTION CAMPAIGN. OPERATIONAL DEVELOPMENTS, SUCH AS THE RESUMPTION OF SSN VISITS AFTER A SIX-MONTH HIATUS AND THE TRANSFER OF P-3 AIRCRAFT TO MISAWA, HAVE TAKEN PLACE WITH MINIMAL PUBLIC FUSS DESPITE THE PRE-ELECTION TIMING.

ON THE NEGATIVE SIDE, INFLATION HAS BEGUN TO ERODE FEELINGS OF MUTUAL DEPENDABILITY IN OUR SECURITY RELATIONS. U.S. OFFICIALS, PRESSED BY AN ANTICIPATED 30 PERCENT PAY RAISE FOR BASE WORKERS, HAVE BEEN BANKING ON THE TIMELY GOJ COMPLETION OF BASE CONSOLIDATION PROJECTS TO BRING DOWN OPERATIONS COSTS. THEY NOW FIND, HOWEVER, THAT CERTAIN PROJECTS WILL HAVE TO BE REDUCED, DELAYED OR ABANDONED BECAUSE OF COST. PROSPECTS FOR DEFENSE BURDEN SHARING ARE ALSO DIMINISHING FOR THE SAME REASONS. THE GOJ MAY DECIDE TO SHELVE THE PROCUREMENT OF ASW, AEW, AND OTHER SYSTEMS FROM THE UNITED STATES UNTIL ECONOMIC CONDITIONS IMPROVE. GOJ OFFICIALS, ON THE OTHER HAND, INCREASINGLY EXPRESS CONCERN THAT INFLATIONARY PRESSURES WILL FORCE U.S. FORCES REDUCTIONS IN THE FAR EAST TO LEVELS WHICH COULD ENDANGER THEIR CREDIBILITY. AT THIS MOMENT, THEY ARE PARTICULARLY UNEASY ABOUT POSSIBLE REDUCTIONS IN SOUTH KOREA.

-- IN SUM WHILE WE EXPECT THAT SECURITY ISSUES WILL REMAIN MOSTLY OUTSIDE THE AREA OF INTENSE PUBLIC INTEREST IN THE MONTHS AHEAD, IT SEEMS CLEAR THAT INFLATION WILL BUILD MULTI-FACETED PRESSURES ON OUR INTER-GOVERNMENTAL RELATIONSHIPS AND DISCUSSIONS ON SECURITY MATTERS.

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